

Message Text

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PAGE 01 STATE 164919
ORIGIN NEA-10

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C O N F I D E N T I A L STATE 164919

E.O. 11652: GDS

TAGS: EFIN, SA

SUBJECT: REPRESENTATIONS ON SAUDI-IZATION OF CITIBANK

REF: (A) SOBER-COSTANZO MEMCON, APRIL 7, 1977,
(B) STATE 128722, (C) JIDDA 4047

1. VICE CHAIRMAN G.A. COSTANZO OF CITIBANK BRIEFED
TREASURY ASSISTANT SECRETARY BERGSTEN AND DEPUTY ASSISTANT
SECRETARY SOBER JULY 1 ON MEETING HELD JUNE 23 IN NEW YORK
WITH SAMA GOVERNOR QURAYSHI CONCERNING SAUDI-IZATION OF
CITIBANK. QURAYSHI DISCUSSION REVIEWED SAG POSITION AS
OUTLINED TO US LAST APRIL BY COSTANZO (REF A), WITH NEW
POINT THAT CITIBANK WOULD SHORTLY BE RECEIVING BY MAIL A
COPY OF ROYAL DECREE REQUIRING SAUDI-IZATION OF BANKS
WITHIN ONE YEAR OF DATE OF DECREE (FIRST TIME WE HAVE HEARD
FIRM DEADLINE MENTIONED).

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CONFIDENTIAL

PAGE 02 STATE 164919

2. IN ADDITION TO REQUIREMENT THAT SAUDI CITIZENS OBTAIN
60 PERCENT OWNERSHIP OF CITIBANK OPERATION, QURAYSHI OUT-
LINED PROCEDURE WHEREBY CITIBANK WOULD NOMINATE FOR SAMA
REVIEW 20 "FOUNDER-OWNERS," EACH OF WHOM WOULD ACQUIRE
SR ONE MILLION OF STOCK (ABOUT DOLS. 250,000). SAMA COULD
DISAPPROVE ANY OF THOSE NOMINATED AND WOULD ALSO HAVE RIGHT

TO SELECT MEMBERS OF THE BOARD OF DIRECTORS FROM THIS 20, AND TO SELECT THE CHAIRMAN. REMAINING SHARES OF 60 PERCENT SAUDI OWNERSHIP WOULD BE OFFERED TO SAUDI PUBLIC.

3. ACCORDING TO COSTANZO, NEW INSTITUTION WOULD NO LONGER BEAR NAME "CITIBANK" BUT CITIBANK EXPECTED IT WOULD BE ASKED BY SAG TO NEGOTIATE MANAGEMENT CONTRACT FOR NEXT FIVE TO SEVEN YEARS. CITIBANK WOULD BE PREPARED TO ENTER INTO MANAGEMENT ARRANGEMENT BUT ONLY ON CONDITION THAT SAUDI OWNERS NOT INTERFERE WITH MANAGEMENT DECISIONS.

4. COSTANZO SAID CITIBANK WISHES TO REMAIN IN SAUDI ARABIA AND ACCEPTS PRINCIPLE THAT SAUDI GOVERNMENT CAN DETERMINE BASIS ON WHICH FOREIGN BANKS OPERATE THERE.

5. FYI. MAJOR POINT OF POTENTIAL CONTENTION IS VALUATION OF CITIBANK ASSETS FOR COMPENSATION OF 60 PERCENT SAUDI TAKEOVER. QURAYSHI STATES "NET ASSET VALUE" OR "BOOK VALUE" WILL BE BASIS FOR COMPENSATION. THIS WOULD RESULT IN VALUATION OF APPROXIMATELY DOLS 45 MILLION, WHICH IS VALUE OF MONETARY ASSETS (WORKING CAPITAL OF SAUDI BRANCHES AND VALUE OF LOANS BOOKED INTO SAUDI ARABIA). COSTANZO MAINTAINED THAT THIS WOULD BE INADEQUATE. CITIBANK WILL BE PREPARED TO HAVE OUTSIDE INDEPENDENT INVESTMENT BANKING INSTITUTION OR INSTITUTIONS, ACCEPTABLE TO BOTH CITIBANK AND SAG, DETERMINE FAIR MARKET VALUE. CONFIDENTIAL

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PAGE 03 STATE 164919

COSTANZO ESTIMATES THIS MIGHT BE IN NEIGHBORHOOD DOLS 150 MILLION, OR TEN TIMES CURRENT ANNUAL EARNINGS. IF OFFERED FREELY ON NARROW SAUDI MARKET, HE BELIEVES EXCESSIVE DOMESTIC LIQUIDITY MIGHT RESULT IN SHARES BRINGING DOLS. 400-500 MILLION, SAYS COSTANZO, A FIGURE CITIBANK ACKNOWLEDGES IS TOO HIGH TO SERVE AS REAL BASIS FOR COMPENSATION. END FYI.

6. COSTANZO FEELS MINFINANCE ABA AL-KHAYL SHARES QURAYSHI POSITION ON BOOK VALUE AND ASKED IF USG WOULD RAISE QUESTION OF VALUATION BY OUTSIDE SOURCE AT APPROPRIATE HIGH LEVEL IN SAG WHERE POLICY DECISION COULD BE MADE. COSTANZO SAID HE FELT FAHD WAS ONLY SAG OFFICIAL WHO MIGHT BE EFFECTIVE IN THIS REGARD.

7. USG DOES NOT WANT TO GET DIRECTLY ENGAGED IN A MATTER THAT SHOULD BE WORKED OUT BETWEEN CITIBANK AND SAG. WE BELIEVE, HOWEVER, THAT IT WOULD BE HELPFUL TO MENTION THIS MATTER IN A LOW-KEY WAY, AT YOUR DISCRETION, AT AN APPROPRIATE LEVEL WITH SAG -- PERHAPS WITH FAHD ON SUITABLE OCCASION. YOU SHOULD NOTE THAT CITIBANK FULLY ACCEPTS SAG'S RIGHT TO DETERMINE CONDITIONS UNDER WHICH

FOREIGN BANKS OPERATE IN SAUDI ARABIA. CITIBANK WISHES
TO WORK OUT SATISFACTORY ARRANGEMENT FOR REMAINING IN
SAUDI ARABIA. THIS REFLECTS CITIBANK'S VIEW THAT ITS
OPERATIONS IN SAUDI ARABIA ARE NOT ONLY PROFITABLE TO
ITSELF, BUT ALSO BENEFICIAL IN MANY WAYS TO THE SAUDI
ECONOMY. USG SHARES CITIBANK'S HOPE THAT ACCEPTABLE
ARRANGEMENTS CAN BE WORKED OUT FOR 60 PERCENT SAUDI TAKE-
OVER, INCLUDING MUTUALLY ACCEPTABLE FORMULA FOR
COMPENSATION TO BE PAID TO CITIBANK. VANCE

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